ing throughout the world and price controls limiting domestic prices, foreign producers found it more profitable to sell their output elsewhere. Between 1971 and 1973, European imports declined by 24 percent and Japanese imports by 18 percent. Consequently, domestic production increased by even more than the substantial increases in domestic consumption.

Prices Under Voluntary Restraints. When voluntrary restraint agreements began, the constrained countries accounted for 80 percent of imports, and by allocating market shares among the principal suppliers, they limited competition among foreign producers. A weighted average price of five imported steel products, adjusted for inflation, rose by 1.2 percent in 1969 and by 13.1 percent during 1970, a year of recession when steel imports declined (see Figure 9). 18/ The price of imported steel remained relatively constant in 1971 and 1972. It then increased by 13 percent in 1973 and by 44 percent in 1974 during the world steel boom.

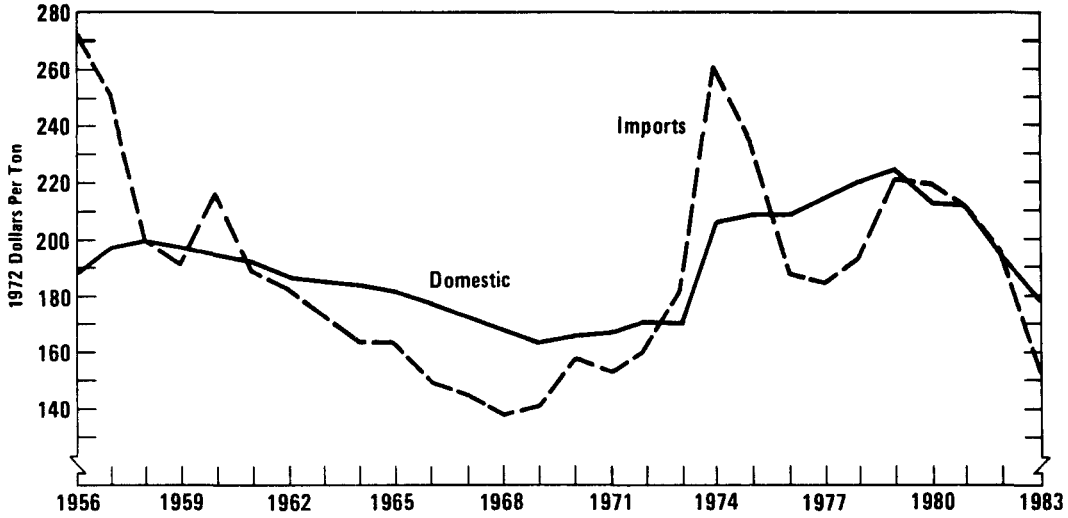
The weighted average price of five domestic steel products, adjusted for inflation, declined at an average annual rate of 2.8 percent between 1965 and 1968. In 1969, the first year of the VRAs, they declined by an additional 3.4 percent. Between 1969 and 1972, real domestic prices increased at an average annual rate of 1.6 percent. The VRAs may have been a factor in reversing the price decline. Domestic prices increased by 20 percent during 1974, the peak of the world steel boom.

An International Trade Commission study concludes that, during the six years they were in effect, the VRAs increased domestic prices by an average of 3.8 percent and had their greatest effect in 1970, when they increased by 5.7 percent. 19/ It further concludes that the VRAs increased domestic production by an average of 1.7 percent and had their greatest

18. Since substantial quantities of steel are sold at negotiated prices, a transaction measure is used in this analysis for both domestic and imported steel. The measure is derived by using a weighted average of the prices of five products: bars, cold rolled steel, hot rolled steel, plates, and structures. These products accounted for approximately 45 percent of domestic steel production and more than 50 percent of imported steel during the period. The data for imports through 1976 and for domestic production through 1979 was taken from Crandall, *U.S. Steel Industry in Recurrent Crisis*, pp. 154-155, 164-165; data for subsequent years were derived by tbe Congressional Budget Office. The Gross National Product deflator is used to remove the effects of inflation.

19. James T. H. Tsao, *Economic Effects of Export Restraints*, United States International Trade Commission Publication 1256 (Washington, D.C.: ITC, June 1982).

Figure 9.
Real Steel Prices (Domestic and Imports)



SOURCES: Congressional Budget Office; Robert Crandall, *The U.S. Steel Industry in Recurrent Crisis* (Washington, D.C.: The Brookings Institution, 1981).

NOTE: Adjusted by GNP Deflator.

effect in 1971 when they increased domestic steel production by 6 percent. The study relied on the Bureau of Labor Statistics producer price index to measure changes in steel prices. This index, however, does not adequately reflect transaction prices and most likely overstates the actual price increases. For example, between 1968 and 1970 the ITC study assumes that domestic prices increased by 11.5 percent, measured in current dollars, while the weighted average of the transaction prices of five steel products increased by 8.8 percent.

Another study, which used transaction prices, concluded that the VRAs had their largest impact in 1971 and 1972 when domestic prices were between 1.2 percent and 3.5 percent higher, and the increase in import prices was between 6.3 percent and 8.3 percent. 20/ The study further estimates that, as a result of the VRAs, domestic production was increased by roughly 3.5 percent.

Based on the foregoing discussion, it seems unlikely that, because of the VRAs, steel prices were as much as 3 percent higher than they otherwise would have been in 1970 through 1972. Moreover, VRAs apparently had an

20. See Robert Crandall, *The U.S. Steel Industry in Recurrent Crisis*, pp.103-107.

even smaller, if any, effect in the other years. A 3 percent price increase translates into $4.35 more per ton of steel because of the VRAs in 1970, $4.65 more in 1971, and $4.95 in 1972. Multiplied by the industry's production minus exports in these years, a 3 percent price increase means that the VRAs increased the industry's before-tax profits by $365 million in 1970, $390 million in 1971, and $440 million in 1972. These amounts correspond to 37 percent, 33 percent, and 27 percent of the industry's before-tax profits in the respective years. 21/

While the assumption of a 3 percent increase in price attributed to the VRAs may be too high, the restraints clearly did not raise the industry's profits above what they had been. In fact, the industry's profits in each of these three years were significantly below what they had been in current dollars since 1963 (see Table 5). Thus, although the VRAs may have raised the costs to domestic steel consumers, they did not succeed in providing the industry with additional funds for increased capital expenditures.

The Trigger Price Mechanism

When the VRAs expired in 1974, they were not renewed. In 1975, another recessionary year, domestic production and imports each declined by roughly 25 percent. Between 1975 and 1977, as the economy expanded and the world steel boom subsided, imports grew by 60 percent, four times as rapidly as domestic production. In 1977, the quantity of imports as well as their market share surpassed their previous peaks. From its 1974 levels, the real price of imports declined by 30 percent. This drop in prices provoked a rash of complaints that foreign producers were dumping steel in the domestic market. In the meanwhile, domestic production was at the same level that it had been in 1968, before the imposition of the VRAs.

Solomon Commission. The rise in steel imports generated Congressional concern, and in 1977 a task force headed by Under Secretary of the Treasury Anthony Solomon was formed by the Carter Administration to develop a policy. The report of the Solomon Commission concluded that a cause of the steel industry's problems was the failure of the demand for world steel to increase as rapidly as capacity. Moreover, a concerted action by the

21. Profit data are from various issues of the Department of Commerce, *Quarterly Financial Report*. The data are based on the principal line of business of the reporting companies, and thus include nonsteel activities of the reporting companies.

TABLE 5. STEEL INDUSTRY PROFITS

	Before-Tax Profits (In billions of current dollars)	After-Tax Profits (In billions of current dollars)	After-Tax Profits as a Percent of Stockholder Equity	
			Steel	All Manufacturing
1960	1.880	0.945	7.3	n.a.
1961	1.589	0.803	6.1	n.a.
1962	1.366	0.720	5.4	n.a.
1963	1.761	0.938	6.9	n.a.
1964	2.149	1.225	8.8	n.a.
1965	2.412	1.401	9.8	n.a.
1966	2.527	1.487	10.3	n.a.
1967	1.816	1.165	7.7	n.a.
1968	1.939	1.186	7.6	n.a.
1969	1.940	1.221	7.6	11.2
1970	0.993	0.692	4.3	9.2
1971	1.173	0.748	4.5	9.5
1972	1.650	1.022	6.0	10.3
1973	2.781	1.679	9.6	12.4
1974	5.384	3.151	16.1	14.4
1975	3.453	2.283	10.6	11.3
1976	2.895	2.086	8.9	13.6
1977	1.055	0.861	3.6	13.8
1978	3.470	2.122	8.8	14.5
1979	3.314	2.186	8.7	15.8
1980	3.325	2.405	8.9	15.2
1981	5.725	3.507	11.3	13.3
1982	-4.949	-3.705	-16.0	9.1
1983	-4.544	-3.746	-18.7	10.2
1984	0.117	-0.379	-2.7	12.2
1985	-0.811	-1.25	-10.2	10.0

SOURCE: Department of Commerce, *Quarterly Financial Review.*

NOTES: There was a change in reporting standards to exclude foreign operations in 1973.

n.a. = not available.

Europeans to stabilize their markets had broken down, apparently prompting these producers to market steel more aggressively in the United States. Shipments from Europe had more than doubled in 1977 and accounted for nearly 80 percent of the total increase in steel imports. In order to stem the tide of imports, the Solomon Commission recommended that reference prices be established at an efficient foreign producer's cost of delivering steel to the United States. If imported steel was priced below this level, it would be prima facie evidence that the steel was being dumped in violation of the Trade Act of 1974. An expedited antidumping proceeding would thereby be triggered, hence the name of the program. 22/ Since Japan was generally acknowledged to be the world's most efficient producer of steel, its costs were used to develop the trigger prices. 23/

While the purpose of the Commission's plan was to preserve jobs and limit dislocations stemming from imports of low-priced steel, its primary objective was to "assist the steel industry in a manner which will stimulate efficiency and enable the industry to compete fairly...This requires an increased pace of investment in modern, effficient facillities...." 24/

Effects of the Trigger Price Mechanism. In 1978, the year that the trigger prices went into effect, the real price of imports rose by 4.5 percent and by more than triple that rate the following year. 25/ During this period, there was an 11 percent decline in the real value of the dollar. Domestic prices, in constant dollars, increased at an annual average rate of 2.5 percent in those two years. Import prices, which had been 14 percent below domestic prices in 1977, were only 2 percent below the price of domestically produced steel in 1979.

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22. The Commission made a number of other recommendations. The trigger price mechanism, however, was the most significant. See "Report to the President: A Comprehensive Program for the Steel Industry," which is reproduced in *Administration's Comprehensive Program for the Steel Industry*, Hearings Before the Subcommittee on Trade of the Committee on Ways and Means, 1978.

23. The Trade Act of 1974 prohibited the sale of foreign goods in the United States below their cost. Previously, a finding of dumping was based solely on the relationship between the price in the United States and the price in the producer's home market.

24. See "Report to the President: A Comprehensive Program for the Steel Industry," p. 10.

25. The trigger prices did not apply to steel shipments that embarked before January 3, 1978. Consequently, the trigger price mechanism did not become fully effective until May of that year.

With the recession of 1980, prices of imported steel fell by less than 1 percent, and the price of domestic steel declined by 5.5 percent. In the first quarter of 1980, U.S. Steel filed dumping complaints against five European producers. By basing the trigger prices on Japanese costs, the program gave the higher-cost European producers a license to dump. Since a purpose of the trigger price program was to eliminate the need for such proceedings, the U.S. government responded to U.S. Steel's complaints by suspending the trigger price program. A strengthened trigger price mechanism was resurrected later that year.

Nevertheless, the real price of imported steel continued to decline, producing another round of complaints from the steel industry in 1982. In addition to allegations of dumping, the steel companies maintained that foreign steel companies were being subsidized by their governments and that countervailing duties should be imposed. This charge led to the permanent suspension of the trigger price mechanism. The Commerce Department upheld the industry's claims of government subsidy in a number of these cases. In lieu of levying countervailing duties in those cases where a subsidy was found, the United States negotiated quotas with all European Community producers. 26/

Between 1977 and 1979, domestic production increased by 10 percent and imports declined by almost the same amount. Since then steel imports have commanded an increasing share of domestic supply. From a 15 percent share in 1979, their share grew to 22 percent in 1982, when the trigger price mechanism was abandoned, and to 26 percent in 1984.

The trigger price mechanism apparently had an even smaller impact on domestic output and prices than did the VRAs. One study estimates that the trigger price mechanism accounted for 25 percent of the increase in the price of imported steel in 1978 and 1979. 27/ The depreciation of the dollar would have led to a substantial increase in steel prices even without the program. Moreover, increasing costs of raw material and labor would have driven up the price of domestic steel. Consequently, the trigger price mechanism produced roughly a 1 percent increase in the price of domestic steel in 1979 and 1980. Despite the higher trigger prices that were put into place at the end of 1980, import prices declined in 1981. Given the rapid increase in the dollar, however, they may have decreased more rapidly without the restraints.

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26. See David G. Tarr, "Does Protection Really Protect?" p. 33.

27. See Robert Crandall, *The U.S. Steel Industry in Recurrent Crisis*, pp. 107-112.

If one assumes that the trigger price mechanism increased domestic prices by 1 percent in both 1978 and 1979, then before-tax profits would have increased by $315 million in 1978 and $360 million in 1979. These amounts represent about 15 percent of pretax industry profits in both years. The program probably did not have a larger effect on the level of profits in 1981.

EFFECTS OF PROTECTION ON THE INDUSTRY'S COMPETITIVENESS

A goal of protection is to provide the domestic industry with the resources to improve its efficiency. The steel industry has been less profitable than the average of all manufacturing since 1960.[28] In addition, relative to stockholders' equity, its long term debt has been higher than average. In 1977 just before the trigger price mechanism was put in place, it was 60 percent greater than for all other manufacturing industries, and it has deteriorated significantly since then. The combination of relatively low profitability and high debt undoubtedly limits the ability of steel manufacturers to raise funds in capital markets.[29] While both episodes of protection probably increased profits, neither the voluntary restraint agreements nor the trigger price mechanism increased profits by much above what they had been. Moreover, neither instance of protectionism led to an increase in capital expenditures.

Although the VRAs may have ameliorated the deterioration in the industry's profits, they did not stem the decline in capital expenditures. Investment in plant and equipment by the intregrated producers fell during the first four years that the restraints were in effect; in 1972, real capital investments were 40 percent of the level they had been in 1968 (see Figure 10).[30] Prompted by record production and increased profits in 1973

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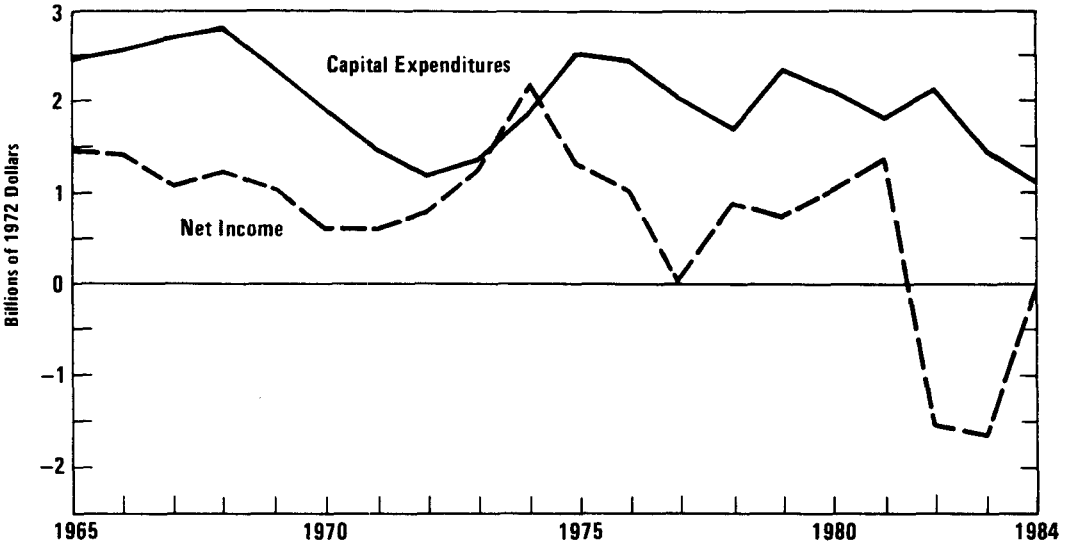
28. See Table 5. Also see Federal Trade Commission, Staff Study, *The United States Steel Industry and Its International Rivals: Trends and Factors Determining International Competitiveness*, November 1977, p. 68; and Congressional Budget Office, *The Effects of Import Quotas on the Steel Industry*, p. 31.

29. See Congressional Budget Office, *The Effects of Import Quotas on the Steel Industry*, p. 31.

30. The data on after-tax profits and investment comes from various issues of the *Annual Statistical Report*, published by the American Iron and Steel Institute. This data applies only to members of the Association and does not apply to the full universe of steel producers. The members, however, account for more than 80 percent of raw steel production.

Figure 10.
Profits and Investments of Integrated Steel Producers



SOURCE: Congressional Budget Office based on data supplied by the American Iron and Steel Institute.

NOTES: Adjusted by the GNP Deflator. Data include only members of American Iron and Steel Institute.

and 1974, real capital expeditures increased between 1973 and 1975. Nevertheless, investment remained substantially below what it had been in the four years before the restraints were imposed.

Similarly, the trigger price mechanism did not lead to increased investment. Between 1977 and 1980, during the first phase of the program, industry investment remained roughly constant. Capital expenditures declined by 20 percent in 1978 and then rebounded sharply in 1979. The average for these two years was around $2 billion, which was the level of capital expenditures that had prevailed in 1977 and 1980. Thereafter, capital expenditures trended downward. 31/

Between 1968 and 1982, productivity in the industry grew less than 50 percent as rapidly as it had in all other areas of manufacturing--an average annual rate of 1.1 percent for steel versus 2.4 percent for all manufacturing. The relatively poor performance of the steel industry was exacerbated by

31. Preliminary econometric investigations indicate that neither episode of protection had a significant effect on the level of investment.

the sharp decline in production in the early 1980s. 32/ Nevertheless, between 1968 and 1979, the steel industry's growth in productivity was 63 percent of all manufacturing. In the early 1980s, however, with its use of capacity below 50 percent, the industry began closing its least efficient facilities. As a result, output per man-hour increased at an average annual rate of 20.5 percent.

Protection did not achieve its long-term goal of producing a substantial modernization of the industry. Moreover, in all but two or three years, the two episodes of protection had minimal effects on domestic output and domestic employment. Employment in the industry has declined continually since the first episode of protection was introduced in 1968, and by 1984, it was nearly half of what it had been.

Although protection did not lead to substantial gains in employment or modernization of the industry, there is some evidence that it increased compensation for steel workers. During the 1970s, largely because of the no-strike labor agreement, average hourly compensation of steel workers grew significantly more rapidly than the average for all manufacturing. Since 1982, with demand for steel still relatively low, steelworkers have agreed to a significant reduction in wages. If the VRAs and the trigger price mechanism had a positive impact on profits, they may very well have contributed to preserving the relatively high-wage structure that the no-strike agreement of 1973 helped to perpetuate. 33/

CONCLUSION

Clearly, neither the voluntary restraint agreements nor the trigger price mechanism provided the domestic steel industry with the resources to increase its international competitiveness. But even if protection had been more successful, it is doubtful whether a massive modernization program would provide adequate returns. Bethlehem Steel, for example, undertook a substantial modernization program in the early 1980s that has not proved profitable. 34/ In the first place, the costs of labor and raw materials are

32. Productivity numbers are from the Bureau of Labor Statistics.

33. For a discussion of the labor relations in a declining industry, see Colin Lawrence and Robert Z. Lawrence, "Manufacturing Wage Dispersion: An End Game Interpretation," *Brookings Papers on Economic Activity*, No. 1, 1985, pp. 47-106.

34. See "Critics Fault Trantlein for Failure to Revive an Ailing Bethlehem," *Wall Street Journal*, May 27, 1986, p. 1.

substantially higher in the United States than they are in many foreign countries. In addition, the negative growth in domestic consumption of steel over the last decade has significantly deterred the construction of new facilities. Moreover, trade protection may have contributed to the relatively high wages in the industry.

Although minimills are able to compete in the market for only a subset of the industry's products, they have become an increasingly important factor in the industry. They have been able to compete effectively with both integrated domestic and foreign producers. Increases in the share of imports for products that minimills produce have been significantly smaller than in other segments of the industry. 35/ To the extent that minimills can develop technologies to produce a wider array of steel products, they can be expected to continue to increase their role in the industry.

35. See Congressional Budget Office, *The Effects of Import Quotas on the Steel Industry*, pp. 15-16.

CHAPTER IV

FOOTWEAR

In several respects, the shoe industry is similar to the apparel industry. 1/ For both, the labor-intensive operations of cutting and stitching account for a substantial part of unit costs, and economies of scale are not very great. Output per worker and wages also tend to be low. Firms in both industries produce a broad array of sizes as well as styles, which change frequently as tastes change.

Protection in the footwear industry, however, has a substantially shorter history; there was only one four-year episode of restraints. Restrictions on the quantity of imports from Taiwan and Korea were imposed in 1977 and allowed to lapse in 1981. These two countries accounted for slightly more than half the shoe imports at the time the restraints were imposed. Moreover, the tariff on shoes, which was 11.7 percent in 1983, is substantially lower than on clothing. In 1984, imports accounted for 70 percent of the pairs of shoes supplied domestically.

The one episode of protection that did take place had only a limited impact on the output and profits of domestic footwear manufacturers. Two factors that undermined the restraints during this period were the growth of exports from noncontrolled sources and changes in the design of some products to avoid the quotas. Despite these limitations, the quotas apparently held imports below the levels they would otherwise have achieved, and generally had a positive effect on output, prices, and profits. One could even argue that investment increased as a result of the quotas. Nevertheless, the quotas ultimately failed to produce a domestic industry strong enough to compete successfully with imports. With the restraints removed, imports grew at twice the rate they had before quotas were imposed.

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1. In this chapter, the term "shoe" will be used synonymously with the designation "nonrubber footwear." It includes dress, athletic, and work shoes, boots, sandals, clogs, and other casual shoes. Footwear not covered by this designation includes protective footwear, such as rubbers and galoshes; zoris (thonged sandals); certain footwear with uppers of fabric and soles of rubber or plastics, such as sneakers, certain joggers, and other casuals; and several other minor categories. See International Trade Commission, *Nonrubber Footwear: Report to the President on Investigation No. TA-203-7*, Publication 1139 (Washington, D.C.: ITC, April 1981), p. A-2.

CHARACTERISTICS OF THE INDUSTRY AND ITS COMPETITIVE POSITION

Shoe production is labor intensive, and although wages in the industry are significantly below the U.S. manufacturing average, they are nevertheless 75 percent to 80 percent higher than wages in most major shoe exporting countries. 2/ Consequently, U.S. footwear manufacturers operate at a significant cost disadvantage vis-a-vis their chief competitors. 3/ Moreover, these cost differentials have remained constant or widened over the past 10 years, in part because of the strengthening of the U.S. dollar and in part because of technical progress in the shoe industries of other countries.

Shoes are a highly heterogenous product: they are not only differentiated by user (women versus men) but by use (athletic, casual, and dress shoes) and style. Within this spectrum, foreign producers have traditionally concentrated on low quality and less complicated products, although Italian and, increasingly, Brazilian shoes are something of an exception.

By almost any indicator, the competitive position of the shoe industry had been steadily deteriorating before protection was imposed. In 1960, domestic firms produced 600 million pairs of shoes, and imports accounted for less than 5 percent of domestic supply. While domestic production remained at roughly that level through most of the 1960s, imports increased nearly sevenfold and accounted for more than 25 percent of domestic supply in 1968. In the late 1960s, as imports continued to grow, domestic production began to contract (see Figure 11). Imports increased by 195 million pairs of shoes between 1968 and 1976, while domestic production fell by roughly an equivalent amount to 422 million pairs of shoes. Employment of

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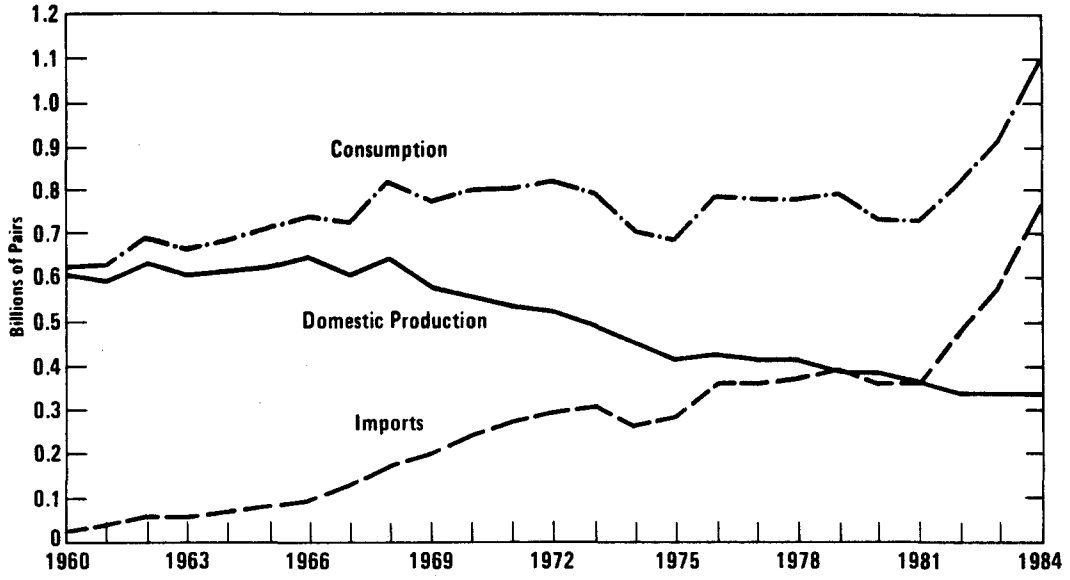
2. Capital stock per hour worked may be used as a crude measure of the capital/labor ratio, since it approximates the amount of machinery with which each worker is equipped. By this ranking, leather and leather products (which is dominated by shoe production) is the third most labor-intensive SIC industry after apparel and construction. See *Statistical Abstract of the United States, 1985* (Washington, D.C.: Bureau of the Census, 1984), p. 526.

3. See Prehearing Brief of Footwear Industries of America, Inc., U.S. International Trade Commission, Investigation Number TA-201-55 (1985), pp. 55-56, and Posthearing Brief of the Korean Footwear Exporters Association, U.S. International Trade Commission, Investigation Number TA-201-55 (1985), pp. 16-17.

Figure 11.
Domestic Footwear Consumption



SOURCE: Congressional Budget Office based on data supplied by Department of Commerce.

production workers declined by roughly 60,000 (23 percent) between the mid-1960s and 1976, the year before the quotas went into effect. 4/

In 1975, the American Footwear Industries Association and two trade unions petitioned the International Trade Commission for trade relief under the "escape clause." The ITC found that increased imports were a substantial cause of serious injury to the domestic industry and recommended that trade restraints be imposed. Instead, President Ford ordered that requests for trade adjustment assistance be expedited. In 1976, the Senate Finance Committee petitioned the ITC to reexamine the industry's request for protection, and the Commission again recommended that the industry be given relief. Instead of imposing tariff rate quotas, as the ITC suggested, President Carter directed that Orderly Marketing Agreements (OMAs) be

4. See International Trade Commission, *Footwear: Report to the President on Investigation No. TA-201-13*, Publication 799 (Washington, D.C.: ITC, February 1977).

negotiated with Taiwan and Korea.[5] Exports from both countries had grown very rapidly, and they had become the two largest exporters of footwear to the United States. In 1976, Taiwan accounted for 42 percent of the quantity of imported footwear, and Korea accounted for 12 percent.

The agreements, which took effect in July 1977, lasted for four years. In the first year of the agreements, imports were restricted to 122 million pairs from Taiwan and 33 million pairs from Korea, which represented 78 percent and 75 percent, respectively, of these countries' exports to the United States in 1976. The quotas for Taiwan were divided into three separate categories (leather footwear, plastic footwear, and footwear with fiber uppers). The agreement with Korea contained two separate categories (leather footwear and leather athletic footwear). The agreements gave the exporting countries some flexibility to shift quotas among categories and to borrow from quotas in future periods. In addition, the quotas increased by roughly 3 percent per year.

In making its recommendation to the President, the ITC suggested that protection might be expected to allow the industry "to meet import competition," and to "improve its competitive condition."[6] Subsequent ITC reports on the shoe industry also implied that modernization was one of the objectives of trade protection. For example, in recommending that protection be extended beyond the initial four-year term, several ITC Commissioners noted the strides that the industry had made to improve its competitive performance.[7]

IMPACT OF QUOTAS ON IMPORTS

The imposition of quotas substantially reduced the quantity of imports from the constrained countries, as well as dramatically increasing their average

5. A tariff rate quota imposes the added tariff for imports above a threshold amount. For an analysis of the decision to employ OMAs, see David Yoffie, "Adjustment in the Footwear Industry: The Consequences of Orderly Marketing Agreements," in John Zysman and Laura Tyson, *American Industry in International Competition* (Ithaca: Cornell University Press, 1983).

6. See "View of Chairman Daniel Minchew and Others," in International Trade Commission, *Footwear: Report to the President on Investigation No. TA-201-18*, Publication 799 (Washington, D.C.: ITC, February 1977), p. 16. Also see "Views of Commissioner Eckes on Remedy," p. 150, in the same report.

7. See statement of Chairman Bill Alberger and others, International Trade Commission, *Nonrubber Footwear: Report to the President on Investigation No. TA-203-7*, Publication 1139, p. 9.

price. Other countries stepped up shipments to the United States, however, which mitigated the effect of the restraints on the quantity and price of nonrubber footwear imports taken as a whole. Nevertheless, the quotas were almost certainly successful in reducing imports below the levels they would otherwise have been.

Quantity of Imports

During 1978, the first full year of the quotas, Taiwan's total nonrubber footwear exports to the United States dropped by nearly 30 percent as compared with the year before, and Korea's exports fell by more than 45 percent. Quotas were 100 percent filled in all categories, and Korea used the flexibility provisions in its OMA to achieve exports in excess of the quota limit. 8/ Taiwan continued to fill its quota limits in all categories throughout the life of the OMAs. Imports of athletic shoes from Korea, which represented 75 percent of that country's shipments in the first year of the quotas, were also at or near the quota limits for most of the period. After the first year, however, Korea's exports of leather footwear were substantially less than their quota. 9/

Although the quotas limited imports from Taiwan and Korea, imports from unconstrained countries grew by more than 50 percent in 1978 and more than made up for the decline in imports from the restrained countries. Thus, despite the restraints, footwear imports from all sources were 1 percent higher than they had been in 1977. Imports remained relatively constant in subsequent years of the quota, with Taiwan and Korea exporting fewer shoes to the United States than they had in 1977 and other countries exporting more (see Figure 12). 10/ Nevertheless, certain types of shoes were apparently in relatively short supply because of the restraints. U.S. importers complained of difficulty in obtaining low-price leather and plastic

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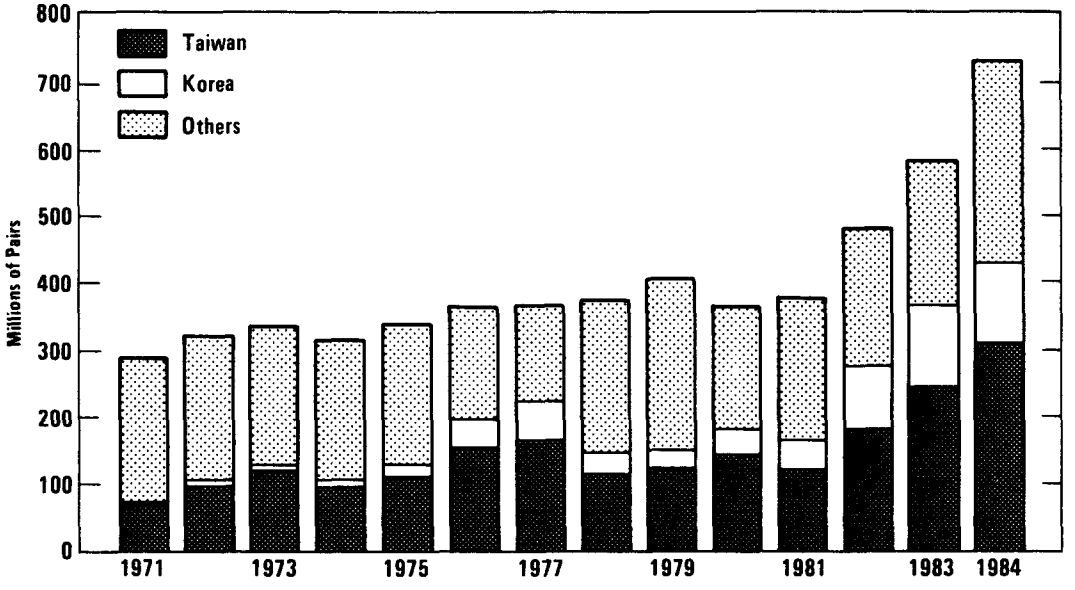
8. See International Trade Commission, *Nonrubber Footwear: Report to the President on Investigation No. TA-203-7*, Publication 1139, p. G-2.

9. According to the Korean Footwear Association, increased raw materials and labor costs made it uneconomic for the country to produce as much leather footwear as formerly. See "Additional Statement of Chairman Alberger and Vice Chairman Calhoun," in International Trade Commission, *Nonrubber Footwear: Report to the President on Investigation Number TA-203-7*, Publication 1139, p. 16.

10. There was a surge in imports from Italy in 1978 and especially 1979. This increase resulted entirely from a trend toward women's high-heeled "Candy" shoes. The popularity of these shoes was responsible for the transitory increase in imports from unrestrained countries in 1979.

Figure 12.
Nonrubber Footwear Imports (By Country)



SOURCE: Congressional Budget Office based on data supplied by Department of Commerce.

shoes from Taiwan and Korea, and potential substitutes (especially from Thailand and Indonesia) were of either too low a quality or could not be manufactured inexpensively enough. 11/

The growth of imports from unconstrained sources was not the only factor that limited the quotas' effectiveness; Taiwan and Korea each managed to skirt the restraints to some degree. Taiwan shipped shoes through Hong Kong in order to bypass OMA limitations. Eventually, a certificate of origin was imposed on all shoe exports from Hong Kong. After jumping by more than 200 percent between 1977 and 1978, Hong Kong's shoe exports to the United States subsequently declined steadily, albeit slowly thereafter.

Moreover, Korean manufacturers were able to mitigate the impact of the quotas by redesigning some of their shoes. Shoes are considered "nonrubber footwear" if over 50 percent (by value) of their upper surface is leather. Because much of the leather used in jogging and other athletic

11. International Trade Commission, *Nonrubber Footwear: Report to the President on Investigation No. TA-203-7*, Publication 1139, p. A-11.